BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2011-271-E

In the Matter of:	)	
	)	
Application of Duke Energy Carolinas,	)	**DIRECT TESTIMONY OF**
LLC for Authority to Adjust and Increase	)	**JANE L. MCMANEUS FOR**
Its Electric Rates and Charges	)	**DUKE ENERGY CAROLINAS, LLC**
	)	
	)	

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jane L. McManeus. My business address is 526 South Church Street, Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Managing Director, Rates for Duke Energy Carolinas LLC ("Duke Energy Carolinas" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from Wake Forest University with a Bachelor of Science in Accountancy and received a Master of Business Administration degree from the McColl Graduate School of Business at Queens University of Charlotte. I am a certified public accountant licensed in the state of North Carolina and am a member of the Southeastern Electric Exchange Rates and Regulation Section and a member of the EEI Rate and Regulatory Analysts group. I began my career with Duke Power Company ("Duke Power") (now known as Duke Energy Carolinas) in 1979 as a staff accountant and have held a variety of positions in the finance organizations. From 1994 until 1999, I served in financial planning and analysis positions within the electric transmission area of Duke Power. I was named Director, Asset Accounting for Duke Power in 1999 and appointed to Assistant Controller in 2001. As Assistant Controller I was responsible for coordinating Duke Power's operational and strategic plans, including development of the annual budget and performing special studies. I joined the

Rates Department in 2003 as Director, Rate Design and Analysis. In April 2006, I became Director, Regulatory Accounting and Filings, leading the regulatory accounting, cost of service, regulatory filings, and revenue analysis functions for Duke Energy Carolinas. I began my current position in the Rates Department in October 2006.

Q. PLEASE DESCRIBE YOUR DUTIES AS MANAGING DIRECTOR, RATES FOR DUKE ENERGY CAROLINAS.

A. I am responsible for managing Duke Energy Carolinas' rider cost recovery processes, including fuel, renewable compliance and energy efficiency; providing guidance on compliance with regulatory conditions and codes of conduct; and providing regulatory support for retail and wholesale rates.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I testified in Duke Energy Carolinas' base rate proceeding in Docket No. 2009-226-E and in several of the Company's annual fuel charge adjustment proceedings, the most recent of which was Docket No. 2010-3-E.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony supports the base fuel factor of 2.3935 cents per kWh that the Company has proposed for all customer classes. In addition, I support several other accounting and pro forma adjustments to the Company's test year operating expenses and revenues contained on page 3 of Shrum Exhibit 1.

Q. YOUR TESTIMONY INCLUDES ONE EXHIBIT. WAS MCMANEUS EXHIBIT 1 PREPARED BY YOU OR AT YOUR DIRECTION AND SUPERVISION?

A. Yes, it was.

Q. DID YOU PROVIDE ANY INFORMATION INCLUDED IN EXHIBITS SPONSORED BY OTHER COMPANY WITNESSES?

A. Yes, I provided the proposed fuel rate and annualized fuel expense and certain other pro forma adjustments to the Company's test year operating expenses and revenues shown on Shrum Exhibit 1, page 3.

II. BASE FUEL FACTOR

Q. WHAT BASE FUEL FACTOR DOES DUKE ENERGY CAROLINAS PROPOSE TO USE IN THIS DOCKET?

A. The Company proposes to use a base fuel factor (excluding gross receipts tax and utility assessments) of 2.3935 cents per kWh, which is based on 2010 test period fuel costs. Duke Energy Carolinas proposes to adjust the factor used in this proceeding, as necessary, to conform to the individual factors for residential, general and industrial customer classes approved by the Public Service Commission of South Carolina (the "Commission") when it issues its Order in Docket 2011-3-E (the "Fuel Costs Docket"). The proposed factors are based upon the actual fuel and environmental cost data for the period June 2010 through May 2011, and the projected fuel and environmental cost information for the period June 2011 through September 2012, comprising the 16 month review period for the Fuel Costs Docket. The Company's recommended fuel factors by customer

class in the Fuel Costs Docket are for the billing period October 2011 through September 2012.

Q. WHAT LEVEL OF FUEL COSTS HAS THE COMPANY INCLUDED IN COST OF SERVICE?

A. As shown on McManeus Exhibit 1, page 1, the Company's South Carolina retail adjusted fuel costs expense for the test period, the twelve month period ending December 31, 2010, was $493,239,000. This amount was calculated using the proposed base fuel cost factor and South Carolina retail test period actual MWh sales, adjusted for weather. The calculated expense was then adjusted to reflect the South Carolina retail level of line loss. I provided this amount to Witness Shrum and it is reflected in the operating expenses shown on Shrum Exhibit 1, page 1.

Q. PLEASE EXPLAIN THE CALCULATION OF THE 2.3935 CENTS/KWH FUEL COST FACTOR.

A. McManeus Exhibit 1, page 2, sets forth the determination of the base fuel costs using: (1) normalized 2010 kWh sales and adjusted generation and purchases to supply the sales; (2) projected price of coal; (3) actual test period burned unit fuel prices for oil and gas combustion turbine single cycle; (4) projected cost of combustion turbine combined cycle; (5) nuclear fuel prices that reflect the actual cost of batch fuel expected to be loaded for refuelings during 2011 and 2012; and (6) projected environmental costs. In addition, fuel and environmental costs expected to be recovered through intersystem sales are reflected as a cost offset. In order to hold South Carolina retail customers harmless from the North Carolina

Renewable Energy and Energy Efficiency Portfolio Standard ("REPS"), only the avoided fuel cost associated with expected renewable generation and renewable purchased power to meet the REPS requirements were included.

III. PRO FORMA ADJUSTMENTS

Q. ARE YOU SUPPORTING ANY ACCOUNTING AND PRO FORMA ADJUSTMENTS IN THIS PROCEEDING?

A. Yes. As discussed by Company Witness Shrum, I provide support for the revenue and revenue-related operating expense adjustments and the fuel adjustment shown on page 3 of Shrum Exhibit 1.

Q. PLEASE DESCRIBE THESE PRO FORMA ADJUSTMENTS.

A. Line 1 reflects adjustments to revenue, fuel expense, and gross receipts taxes and utility assessments to normalize weather conditions experienced during the test period. Because of extreme temperatures, actual kWh sales were higher during the test period than they otherwise would have been. The effect that temperature variances had on kWh sales was determined and that change in kWh sales was then priced out for each customer class during the test period at the rates in effect during the test year to obtain the adjustment to revenue. Then the related fuel expense and gross receipts taxes and utility assessments due to this adjustment in kWh sales were calculated.

Line 8 adjusts revenues to eliminate the estimated unbilled revenue the Company recorded for the difference between kWh sales billed during the test year and kWh used by customers during the test year.

Line 12 adjusts expenses to remove amounts that are associated with cost recovery through the Energy Efficiency Rider.

Line 13 is the additional South Carolina retail revenues and gross receipts tax and utility assessments required to reflect the annualization of rates in effect on December 31, 2010, adjusted for a composite fuel costs factor of 2.3935 cents per kWh, excluding gross receipts tax and utility assessments.

Line 15 adjusts fuel expense in the test period to reflect the generation mix, quantity of fuel, and price of fuel as shown on McManeus Exhibit 1, page 2. The annual fuel expense for fuel clause purposes is calculated using the composite 2.3935 cents per kWh fuel costs factor, excluding gross receipts tax and utility assessments, applied to adjusted test period kWh sales.

Line 21 adjusts expenses to reflect amortization of deferred pension costs over a 3-year period. The Commission approved the deferral of certain pension costs in its Order Number 2011-511 in Docket 2011-175-E.

Q. PLEASE EXPLAIN WHY YOU BELIEVE THE WEATHER NORMALIZATION ADJUSTMENT REFERRED TO ABOVE IS APPROPRIATE.

A. The purpose of the Company's weather normalization adjustment in this case is to determine the amount of sustained energy sales within a given test year. The Company will collect its proposed revenue requirements by setting its rates based on the expected level of sustained sales. If rates are established based on sales reflecting extreme weather conditions, the Company may either over or under collect the necessary level of revenue. The Company has made a determination

that the weather conditions during the test period were extreme, and therefore the test period sales are not a reasonable estimate of future sales. The Company's weather normalization adjustment excludes those test period sales resulting from extreme weather conditions, so that rates to be implemented in a future period may be set to reflect a level of sales that excludes weather conditions that are unlikely to recur. This practice helps to ensure that the Company's test year revenues are reasonably representative of Duke Energy Carolinas' future revenues.

Q. HOW DID THE COMPANY MAKE THE DETERMINATION THAT WEATHER CONDITIONS WERE EXTREME?

A. The Company used a measure of degree days to determine that weather conditions were extreme. Each degree of outside average temperature below the base of 65 degrees is one heating degree-day and each degree above the base of 65 degrees is one cooling degree-day. When compared to average temperatures during the last 10 years, 2010 heating degree -days were 14% above average and 2010 cooling degree-days were 28% above average. Based on these indicators, it was clear that 2010 was a year of extreme weather that drove up kWh sales well beyond what is reasonable to expect in the future.

Q. WHAT METHOD HAS THE COMPANY USED TO DEVELOP A MORE REASONABLE LEVEL OF EXPECTED KWH SALES?

A. In general terms, the process for determining the volume of kwh sales that would be considered reassonable (i.e reflecting normal, recurring energy consumption) requires both the determination of customers' average electricity usage in

response to temperature and the determination of average normal temperatures. The Company analyzed its historical kwh sales and historical temperatures in its service area to determine the kwh used by its customers at various temperatures. This analysis was done by type of customer, since customers may respond to temperature differently, and used temperature data collected from 3 weather stations in the Duke service area. Once the relationship between customer kwh usage and temperature was established, this relationship was applied to normal temperatures to determine customer electricity usage that can be expected on a normal recurring basis.

Q. IS THE APPROACH TAKEN OF MAKING THIS WEATHER ADJUSTMENT CONSISTENT WITH SOUTH CAROLINA LAW?

A. Yes, it is. South Carolina normally uses the test year for ratemaking based on the assumption that the test year will reflect typical conditions going forward. However, when an unusual situation exists, the test year results must be adjusted in order to better indicate future trends. It is essential to use the best information available in order to best portray the likely results of operations going forward.

Q. PLEASE PROVIDE AN EXAMPLE OF A SITUATION LIKE WHAT YOU HAVE DESCRIBED?

A. Since I'm not a lawyer I cannot give a legal opinion; however, I believe that the South Carolina Supreme Court case Hamm v. South Carolina Public Service Commission, 309 S.C. 282, 422 S.E.2d 110 (1992) addressed a similar issue. In this case, the South Carolina Supreme Court reviewed a rate decision by the Commission in which rates were set in part based on test year litigation expenses

that the Consumer Advocate argued were abnormally high. The Consumer Advocate made a showing that the test year litigation expenses were higher than the company had ever experienced and the Supreme Court decided that the Commission should have made a determination as to whether those test year expenses were abnormally high and therefore should have been averaged with other years.

That is what the Company advocates in this case. The 2010 weather in our service area was extreme, resulting in abnormally high kWh sales that cannot be reasonably expected in the future. Accordingly, we have made adjustments to more accurately project the Company's future kWh sales.

Q. IN YOUR OPINION, DO THESE PRO FORMA ADJUSTMENTS REFLECT KNOWN AND MEASURABLE CHANGES TO THE COMPANY'S 2010 TEST YEAR OPERATING EXPENSES AND REVENUES?

A. Yes, the adjustments set forth above reflect known and measurable changes to the Company's test year revenues and expenses.

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

DUKE ENERGY CAROLINAS
South Carolina Retail Adjusted Fuel and Fuel-Related Costs
Twelve Months Ended December 31, 2010
($000s)

Line No.	Description	Residential (Col. 1)	Commercial (Col. 2)	Industrial (Col. 3)	SC Retail (Col. 4)
1	SC retail sales, per books (MWH)	7,147,954	5,853,823	8,432,437	21,434,214
2	Weather adjustment (MWH)	(603,962)	(111,040)	(75,003)	(790,005)
3	SC retail sales, adjusted (MWH)	6,543,992	5,742,783	8,357,434	20,644,209
4	System fuel and fuel-related costs factors per KWH (¢/KWH)	2.3935	2.3935	2.3935	2.3935
5	Subtotal (line 4 times line 5) ($ 000)	156,630	137,454	200,035	494,119
6	SC retail line loss differential ($ 000)				(880)
7	Total adjusted SC retail fuel and fuel-related costs ($000)				$ 493,239

DUKE ENERGY CAROLINAS
Calulation of Base Fuel and Fuel-Related Costs Factors
Using Adjusted Test Period Twelve Months Ended December 31, 2010
($000s)

Line No.	Description	Adjusted MWH	Fuel Costs ¢/KWH	Fuel Costs Amount
1	Coal	34,576,876	3.872	1,338,692
2	Fuel oil and Natural gas	337,341	13.734	46,329
3	Combined Cycle Natural Gas	2,964,050	4.037	119,654
4	Biomass/Test Fuel	5,423	6.011	326
5	Reagents			33,004
6	Emission allowance gains, net*			(6,902)
7	Total fossil	37,883,690		1,531,103
8	Nuclear (Incl NFDC) (Net)	41,686,813	0.577	240,612
9	Catawba Joint Owners	14,695,350	0.566	83,176
10	Total nuclear (incl NFDC)	56,382,163		323,788
11	Total fossil and nuclear	94,265,853		1,854,891
12	Hydro	1,742,500		-
13	Net pumped storage	(816,169)		-
14	Total hydro	926,331		-
15	Solar Distributed Generation**	14,178		590
16	Total generation	95,206,362		1,855,481
17	Less Catawba Joint Owners	14,695,350		83,176
18	Net generation	80,511,012		1,772,305
19	Purchased Power - Fuel	1,919,663		31,229
20	Purchased Power - Non-Capacity	2,961,935		141,912
21	Renewable Purchased Power**	270,703		11,261
22	Total Purchased Power	5,152,301	3.579	184,402
23	Total Net Gen & Purchased Power	85,663,313		1,956,707
24	Line Loss and Company Use	(5,157,344)		-
25	Intersystem sales	(1,034,118)	5.196	(53,728)
26	Non-Capacity PP for Intersys Sales	(17,095)	7.289	(1,246)
27	System sales excl intersystem	79,454,756		1,901,733
28	Fuel and Fuel-Related Costs ¢/KWH			2.3935 ¢

* Includes emission allowances offset by emission expense
** Fuel costs represent avoided fuel costs @ $41.60/MWh